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NWC ALLIANCE NEWSLETTER

Standing together

There's a hard market coming...now is the time to prepare!

Many of us, whether in the construction industry or the insurance industry, may not have been in business during the last hard market. However, the signs are out there that another hard market is on its way. Perhaps you have already noticed that excess and umbrella liability is rapidly hardening. Some general liability coverages along with certain lines of property or property related lines of coverage are hardening as well.

A hard market is caused by the flight of capital from the insurance companies who need it, either because of excessive claims, changes in reserves, or because investors require a greater ROI as a result of competing opportunities or increased risk. Even now, we are seeing "social inflation," wildfires, hurricanes, and other factors ushering in a hard market.

To learn more, check out this article from the Insurance Business Mag: What is social inflation, and why is it hurting insurance

Hard Market

When insurance prices go up, coverage goes down and some folks get pinched

Social Inflation

Generally refers to the rising costs of insurance that are a result of societal trends and views toward increased litigation, broader contract interpretations, plaintiff friendly legal decisions, and larger jury awards.

So...what does that mean to agents and their builder/contractor policyholders?

- Extreme Price Hikes
- Reduced Coverage
- Reduced Access to Carriers
- Last Minute Quotes
- Onerous Binding and Compliance Conditions
- Harsh Audits

Price goes up...coverage goes down

While hard market conditions do mean we can expect price spikes that are significantly greater than the 5 to 10% we are currently seeing, a more dangerous aspect of a hard market is coverage constriction. Carriers understand human nature: many folks are more likely to notice and be disturbed by rate increases than by the fact that coverage is being reduced. Carriers know that they can save significantly if they avoid paying claims by reducing coverage. However, the knowledgeable builder/contractor understands that cutting coverage may cost them much more in the long term than any increase in rates.

The knowledgeable builder/contractor values the agent who is vigilant when it comes to coverage. Most carriers make general announcements regarding coverage reductions, but some don't. Furthermore, very few carriers will provide specific interpretations of coverage reductions, potentially leaving contractors and their agents with uncertainty regarding exactly what risks are covered...and what risks are not covered!

Coverage changes occur both for new business as well as renewals. They vary widely and can include exclusions and limitations regarding uninsured subcontractors, earth movement or subsidence, residential construction types, subcontractor action over, and more. In softer markets, underwriters often are able to "give back" excluded coverage or allow the insured to "buy it back." However, as the markets harden, underwriters will be told, "no buy backs, no give backs" on coverage. Unless the agent or builder/contractor has other options...somebody is going to be stuck.

They won't return my calls, and I'm scrambling to find a quote

Getting "stuck" is not only a function of the financial capacity of the insurance marketplace, but also of the insurance industry's human capacity. In other words, it will become very difficult to get to an underwriter who will give desired answers. The significant number of mergers we have seen in Excess and Surplus line programs as well as in wholesale operations will only serve to compound this challenge. These new combined operations have been shedding staff in both distribution and underwriting to reduce expenses while awaiting the full blown hard market.

Check out this page from the Business Insurance Website to see a ton of recent mergers & acquisitions.

One of the many consequences of reduced access to carriers is that many builders/contractors will end up with last minute quotes. They will be forced to bind policies with reduced coverage and exorbitant pricing simply because they can't afford a gap in coverage. However, working far in advance and quoting all remaining carriers on every renewal will leave little time for new business pursuits by unprepared agents and will strain agency staff to the extreme. Is your current wholesaler helping your agency workflow by getting you renewal quotes well in advance right now? Imagine how important it will be to manage agency workflow and staffing as the market further hardens. Your ability to get a return phone call and a timely quote will certainly impact your agency and the builders/contractors you serve.

Currently, very large MGAs are the "go to" for most retail agencies. Only a few small wholesalers remain un-bought and highly specialized. The hard market always comes with opportunity...for those who are prepared. The discerning retail agent will ask: what wholesaler will be available as the hard market hits? Will they have the sense of service and value needed? Will they have both the bind and loss ratios that have allowed them to form deep carrier relationships so they can get things done when others can't?

The small, specialized wholesalers can get unusual things done, but they too will be at capacity during the middle of the hard market. The prudent retail agent will need to start building relationships before it's too late and early quotes worth selling are unavailable.

They want me to do what?

As the market hardens, some carriers believe they can minimize risk by adding crushing bind requirements or coverage conditions to the quotes they offer. The quotes may charge a reasonable premium, but what good is a liability quote to a builder if the required warranty program costs more than 50% of the insurance premium in addition? If a builder must add over $500 per home in quality assurance costs by third parties, is the premium and coverage going to be worth it? Some organizations can limit or mitigate these kinds of requirements and may also have better tools by which to impact the risks of concern. Many policies already have difficult conditions that will only get worse and most will affect renewal and/or coverage eligibility.

Ouch...that hurts!

Lastly, a hard market will see more audits and audit premium enforcement. Up until last year, many carriers used premium thresholds that presumed small accounts didn't have much additional premium potential. That has changed and agents who used artificially low deposit exposures and premiums to fall under these thresholds are experiencing big challenges.

If audits were used for policyholder cashflow reasons, this will also pose difficulties. What audit expertise and which cash flow mitigation tools do large MGAs offer for construction? Very few, if any.

Wise Insure, the wholesale division of the Nationwide Contractors' Alliance, is a small specialized wholesaler, with not-so-secret weapons and expertise to position you or your agent for the hardening market...but not after it's too late. Take the time now to get partnered with us.